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Weekly Commentary, Selected Financial Data, and Business Indicators

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Reports Of The Recession's Demise . . .

The weak performance of consumer spending and credit during the third quarter when considered along with the absolute drop in the October retail sales figures and the rise in unemployment bring into question not only the strength of the widely heralded economic recovery but also whether it really took place at all. It is becoming increasingly apparent that the improvement in retail sales in the third quarter was simply a partial satisfaction of demand deferred from the second quarter under the Fed's credit control regime. The return to a decline in retail sales in October indicates that the underlying weakness in the retail sector (which usually leads recovery from recession in the U.S.) and, indeed, weakness in the economy as a whole, still exists.

The Commerce Department reports that retail sales in October declined by 0.1 per cent in nominal terms from the previous month, the first decline since last May. In September retail sales were up by 1.5 per cent. If the effects of inflation are stripped away, however, October's decline in retail sales was about one per cent.

The fall in retail sales was particularly evident in durable goods which slipped by 1.1 per cent in nominal terms after rising by 3.9 per cent in September. Durable goods, which include such items as automobiles and large appliances, are very sensitive to changes in interest rate levels because they are usually financed over a period of time. Automobile sales, for example, decreased by 2.1 per cent in October after rising 5.2 per cent in September when the cost of consumer credit, though high, was still below levels subsequently reached in October and November. Nondurables, less subject to interest rate influences, still grew by only 0.3 per cent last month after a 0.5 per cent rise the month before. This, too, would suggest that there is evidence of weakness in the retail sector.

In fact, evidence of weakness in final consumption can be found all across the board. For example, single-family housing has been weak even while retail sales were showing superficial signs of improvement. September was the second consecutive month of decline in single-family housing sales, as they posted a drop of 13.8 per cent, seasonally adjusted. At September's sales rate, homebuilders reported a 7.9 months' supply of houses on hand, up from 6.2 months' in August. Continued softness in the housing market is expected because mortgage rates continued to rise in October and November over the rates that prevailed in September.

. . . Are Greatly Exaggerated

Consumer credit was up by a seasonally adjusted $1.45 billion in September (6.0 per cent at an annual rate) after a very small rise of $15 million in August. The August increase was the first monthly increase since March when credit controls were imposed by the Federal Reserve (and removed in June). But in spite of the removal of credit controls at the end of the second quarter of this year (during which net outstanding consumer credit fell at an 11.5 per cent annual rate from the first quarter), consumer credit rose by only one per cent in the third quarter. This increase, again, occurred during a brief period when installment credit costs were declining.

The outlook for consumer spending is not bright. While a recent survey by the Conference Board shows that consumer confidence has been improving for the past few months, buying plans declined in October after a strong gain in September. For example, the proportion of those surveyed who plan to buy either a new or used automobile during the next six months declined from 7.4 per cent to 6.4 per cent last month. The number of prospective purchasers of major appliances also fell, going from 28.9 per cent to 25.4 per cent, while homebuying plans also declined. Of those surveyed, 2.8 per cent plan to buy a home in the next six months, down from three per cent in the September survey.

Certainly, the prospects for recovery have been hurt by rising short- and long-term interest rates in the last few months, and continuing rises are imminent before they begin to decline. Concern about the near-term course of the economy is reflected in the continuing high levels of debt liquidation. From April through July of this year, consumer debt liquidation exceeded new consumer debt extended. In August and September net consumer debt began to grow again

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but very modestly. This reflects continued concern not only about the course of the economy as a whole but also about personal prospects as well.

Meanwhile, unemployment rose to 7.6 per cent in October after dropping to 7.5 per cent in September. The number of employed persons declined in October by a statistically insignificant 31,000 jobs out of a total employment of 97.2 million, but the number of unemployed grew by 178,000, reflecting a greater increase in the size of the potential work force than industries to absorb them. It is clear that high and rising interest rates, continued high levels of consumer debt, high inflation and consequent declining real purchasing power continue to limit personal consumption. The fourth quarter may well see a return to negative or, at best, a flat rate of real growth.

A New Wave Of Price Hikes ?

One clue as to what lies ahead on the inflation front may be found by examining the various Producer Price Indexes. These illustrate an ominous accelerating trend in prices at each stage of production which may well be the leading edge of a new wave of increased consumer prices.

Each stage of production of goods serves as the basis

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/5/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.125	– .417	+ 6.960
Member Bank Borrowings	1.878	+ .438	– .050
Float	3.058	– .305	– 1.250
Total Reserve Bank Credit	141.909	+ .100	+ 7.584
Treasury Deposits with Federal Reserve Banks	2.291	– .899	– .855
Currency Outside Banks	118.948	+ .040	+ 9.865
Member Bank Reserves:			
Required	42.032	+ .102	– .058
Excess (Deficiency)	.591	+ .510	+ .182
Total Reserves Held	42.623	+ .612	+ .124
Net Borrowed Reserves	1.215	– .057	– .085
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85.850	+ .173	+ 5.813

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (10/29/80)	386.5	+ 15.0	+ 5.7
M-1B (10/29/80)	410.5	+ 17.5	+ 7.5
M-2 (September '80)	1,641.3	+ 14.8	+ 9.2
L (August '80)	2,271.8	+ 10.3	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/14/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.31%	13.08%	12.27%
* Federal Agencies	14.13	13.68	13.48
* Project Notes–Taxfree (46% Taxable Equivalent)	11.11	13.70	13.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	15.95	14.85	

‡Finance Company Paper–Prime

5- 14 days	12.50%
15- 29 days	13.50
30- 59 days	14.25
60-179 days	14.25
180-270 days	13.25

‡* Bankers' Acceptances

Dec.	14.40%
Jan.	14.40
Feb.	14.35
Mar.	14.10
Apr.	13.85
May	13.50

‡Industrial Paper–Prime

30- 89 days	14.25%
90-120 days	13.00

† Federal Funds Effective Rate 14.13%

‡Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,583	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	1.0%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons) †	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Sept '80	$ 2,160	$ 2,140	$ 1,960
Leading Indicators Composite Index (1967=100) †	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100) †	Sept '80	142.4	141.0	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Sept '80	1,544	1,416	1,874
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories†	Sept '80n	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80n	$ 317.6	$ 308.0	$ 296.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

for the next stage. As this proceeds from crude materials to intermediate products, to finished goods which are finally purchased for consumption, price increases at any one stage will contribute later to price increases at the next stage, and so on. The ultimate purchasers—consumers—must pay the final bill.

The Producer Price Index for crude materials rose 1.3 per cent in September and 1.9 per cent in October. At the next stage, intermediate goods prices increased 0.6 per cent in September and 0.9 per cent in October. Prices for finished goods declined slightly in September by 0.2 per cent—but increased in October by 0.8 per cent. Although there is no systematic way to calculate the net effect of these increases, the combination will produce a bulge in the upward trend of consumer prices.

Pressure from another direction will also be felt soon in consumer prices. Mortgage costs enter the Consumer Price Index with a lag. Because mortgage rates fell in August, they depressed September's CPI. The fact that mortgage rates climbed again in September will produce a corresponding boost in the October CPI. Combined pressures from mortgage costs and from the Producer Price Index bulge could easily lead to inflation rates in the fourth quarter which return to the double-digit range. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/29/80)	99,381	+ 2,774	+ 8,500
New York City (10/29/80)	23,908	+ 1,388	+ 5,098
Commercial Paper (10/29/80)	124,839	+ 34	+17,167

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/29/80)	166,208	+ 244	+11,616
New York City (10/29/80)	48,565	+ 160	+ 3,182

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/29/80)	412,574	+ 2,497	+20,853
New York City (10/29/80)	96,586	+ 1,957	+ 8,879

Financial Markets

	Friday 11/14/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.42%	+ .40	+ .98
180-Day Bills†	13.20	+ .36	+ .34
Longest Bills†	12.34	+ .17	– .02
Recent Issues:			
12 1/8s 10/31/82	12.35	– .81	
12 1/8s 9/30/84 (When Issued)	12.46	NA	
13s 11/15/90	12.87	– .03	
12 3/4s 11/15/10 (When Issued)	12.39	NA	
Municipals:			
Bond Buyer—20 Bond Index* (11/13/80)	9.50%	– .14	+ 2.12
Blue List Total ($ Million)	$ 712	– $ 96	– $ 103
30-Day Visible Supply ($ Million)	$2,661	+ $271	+ $1,392
Total	$3,373	+ $175	+ $1,289
Corporates:			
Moody's Aa Composite (11/13/80)	13.26%	– .08	+ 1.99
Money Mgr.—30-Day Supply ($ Million)	$3,878	– $205	+ $2,161
Stocks:			
Dow-Jones Averages:			
Industrials	986.35	+ 53.93	+ 174.58
Transportation	391.96	+ 28.74	+ 148.29
Utilities	116.76	+ 6.82	+ 11.82
65 Stocks	376.91	+ 23.10	+ 87.53
Standard and Poor's 500 Stocks	137.15	+ 7.97	+ 33.36
N.Y.S.E. Composite Index	78.96	+ 4.61	+ 22.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	55,436	+ 3,181	+ 23,313

* 46% Taxable Equivalent 17.59%.

† Bond Equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/14/80	Week Ago
Overnight	14.38%	15.00%
1 month	15.25	16.00
3 month	15.63	16.50
6 month	15.25	16.50
1 year	14.13	15.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.76%	13.23%
Long Term (7 to 15 yrs.)	12.76	13.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/14/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03273	30.555
Canada	.8431	1.1861
Denmark	.1708	5.8535
France	.2269	4.4075
Germany	.5255	1.9030
Italy	.001108	902.50
Japan	.004688	213.30
Mexico	.04316	23.17
Netherlands	.4848	2.0625
Switzerland	.5833	1.7145
U.K.	2.4137	.4143

THE SHAREHOLDERS RELATIONS FITNESS TEST.

STRENGTH:

Effective shareholder relations start with a stock transfer agent backed by an ongoing investment in hardware, software and "peopleware."

At Manufacturers Hanover, we're committed to having on-line the latest generation of computers with the most sophisticated programming capabilities available.

TRANSIFAC,℠ the nerve center of our entire operation, has a track record no competitor can match. Just ask any of the some 400 corporations we serve.

WEIGHT:

For many customers, Manufacturers Hanover has reduced the number of shareholder accounts by more than 10% – the result of seeking out duplicate accounts the previous stock transfer agent may have entered wrong.

REFLEXES:

At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:

Our TRANSIFAC system maintains fully computerized audit controls over all work; keeps track of certificate inventory; and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:

Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

If your present stock transfer agent looks out of shape to you, talk to Manufacturers Hanover. For more information on our stock transfer and registration services, contact Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, N.Y., N.Y. 10015.

IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.